

**CORPORATE ENVIRONMENTAL RESPONSIBILITY
DISCLOSURES: THE CASE OF SHARIAH COMPLIANT
COMPANIES**

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**UNIVERSITI SAINS MALAYSIA
2009**

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**Research report submitted in partial fulfillment of the requirement for the degree of
Master of Business Administration (MBA)**

2009

DEDICATIONS

To My Lovely Husband And Mother:
MOHD ZAHIR ABD MANAN
&
RAMLAH MD. NOR

My Lovely Daughters:
AUFA NADHIRAH ZAHIR
AINA NABILA ZAHIR
AINI NAJWA ZAHIR

ACKNOWLEDGEMENT

Praise Allah the Al-Mighty and Merciful for without His blessings it would not be possible to complete this dissertation as planned. I would like to convey the appreciation to Dr. Sofri Yahya and Dr. Harashid Harun for the guidance, advises and support during preparation of this study. I would like to thank my husband, Mohd Zahir, my mother, Ramlah, my daughters Aufa, Aina & Aini and my siblings Dairabi, Rodzi and Naadiah for being supportive and understanding throughout the duration of the MBA course. I am grateful for all the moral support given to me.

Special thanks to all the lecturers who have taught me throughout my study in USM, they are Prof. Dr. Hasnah Haron, Dr. Rehana, Dr. Nabsiah, Prof. Dr. Mahfooz, Associate Prof. Datin Dr. Ruhani, Dr. Rosli, Prof. Dato' Dr. Daing Nasir Ibrahim, Dr. Noornina Dahlan, Mr. Soh Keng Lin, Dr. Daisy, Dr. Suhaimi and Dr. K.Jeyaraman.

I would like to express my thanks to all my friends especially Idayu, Ina, Ija, Siti, Ralf, Masri, Fuat and Azeez, for their kind assistance and understanding. I sincerely appreciate it very much.

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ABSTRAK (MALAY)

PENZAHIRAN MAKLUMAT BERKENAAN TANGGUNGJAWAB KORPORAT

TERHADAP ALAM SEKITAR: DI DALAM KES SYARIKAT PATUH

SYARIAH

Matlamat utama kajian ini diadakah adalah untuk menyiasat mengenai penzahiran maklumat berkenaan tanggungjawab korporat terhadap alam sekitar, di dalam laporan tahunan syarikat-syarikat yang disenaraikan di papan utama Bursa Malaysia sebagai syarikat patuh Syariah. Sejumlah 217 laporan tahunan bagi tahun berakhir 2007 telah dianalisa. Analisis kandungan telah digunakan untuk mengenalpasti tingkat penzahiran maklumat berkenaan tanggungjawab korporat terhadap alam sekitar di dalam laporan tahunan masing-masing. Analisis korelasi telah digunakan dalam mengkaji hubungan di antara peratusan tanggungjawab korporat terhadap alam sekitar dengan pembolehubah-pembolehubah tidak bersandar, iaitu pengerusi lembaga pengarah, struktur pemilikan syarikat, pengarah bebas bukan eksekutif, struktur modal dan jenis perniagaan atau sektor. Seterusnya analisis regrasi berganda telah digunakan untuk menganalisa sama ada terdapat hubungan yang signifikasi di antara pembolehubah. Kajian ini mendedahkan bahawa terdapatnya hubungan yang signifikasi di antara pengerusi lembaga pengarah yang beragama Islam dengan penzahiran maklumat berkenaan tanggungjawab korporat terhadap alam sekitar. Jenis perniagaan ataupun sektor juga didapati mempunyai hubungan yang signifikasi dengan penzahiran maklumat berkenaan tanggungjawab korporat terhadap alam sekitar.

Di dalam kajian ini terdapat bukti yang menunjukkan bahawa pengerusi lembaga pengarah yang beragama Islam di dalam syarikat patuh Syariah mempunyai pengaruh ke atas penzahiran maklumat berkenaan tanggungjawab alam sekitar. Pelakuan ini selari dengan apa yang di ajarkan di dalam agama Islam itu sendiri.

Tambahan lagi, kajian ini juga mengesahkan tingkat penzahiran berkenaan tanggungjawab korporat terhadap alam sekitar adalah berbeza di antara sektor dan di Malaysia tingkat penzahiran adalah agak rendah. Hasil kajian ini dapat dijadikan bukti kepada badan-badan berkanun seperti Suruhanjaya Sekuriti Malaysia untuk melihat semula garis panduan kepatuhan kepada Syariah.

ABSTRACT

CORPORATE ENVIRONMENTAL RESPONSIBILITY DISCLOSURES: THE CASE OF SHARIAH COMPLIANT COMPANIES

The aim of this research is to investigate the disclosures of corporate environmental responsibility in annual report of Shariah compliant companies listed in main board, Bursa Malaysia. A total of 217 annual reports for the year ended 2007 have been analysed. Content analysis was used to identify the level of corporate environmental responsibility in the annual report. Correlation analysis was used in examining the relationship between percentage of corporate environmental responsibility and the independent variables which are chairman of the board, ownership structure, independent non-executive directors, capital structure and type of business or sectors. Multiple regressions is further used to analyse the significant of the relationships. The study revealed that Muslim chairman of the board and types of business have significant relationships with corporate environmental responsibility disclosures.

The empirical evidence of this study revealed that Muslim chairman of the board of Shariah compliant company has influence over corporate environmental disclosures. This is consistent with Islamic school of taught. Furthermore, the study confirms that the level of corporate environmental responsibility disclosures is different across sectors and it is relatively low. This research provides evidence for regulatory body such as Securities Commissions of Malaysia to further look at the Shariah compliant guidelines.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter illustrates the background of the study, problem statement, objective, research questions and the significance of the research.

1.2 Overview of Islam and Environment

According to World Health Organization (WHO) every year 150,000 people die as a result of climate change. A further two million die every year because of respiratory infections, heart disease and lung cancer caused by air pollution.

Environment issue has been a major discussion throughout the world especially in developing country like Malaysia. Global warming, air and water pollution, deforestation, solid waste are some of the example of environment issues being discussed. There are many factors that contribute to these issues. Researchers blamed, among other thing, the population growth, pollution from industrial activities, over-exploitation of animals through hunting, trapping and fishing, conversion of forest land for agriculture, settlements and industry and unsustainable development (Buniamin, Alrazi, Johari, & Rahman, 2008).

Due to all these reasons people have to be informed on the need and the importance of environmental protection, not only for themselves but also for their generation.

Everybody who lives in this world dream a better life for their own self as well as for their family. Everybody wants a good and healthy environment, and the

responsibility to protect the environment must be carried out by every single person especially by Muslim. Every Muslim must obey with what has been stated by God and follow through what has been taught by holy Prophet (pbuh). The issue of environment protection has already been repeatedly mentioned in Qur'an and Hadis. As Khalifah in this earth, we have to utilize what have been granted to us properly. Some of the Quranic versions that mentioned about the importance for protecting the environment are as follows:

"And He subjected to you the sun and the moon, both in a steadfast manner, and He subjected to you the night and the daytime. And He has given you all you asked Him; and in case you number the favor (s) of Allah, you cannot enumerate them. Surely man is indeed constantly unjust, most disbelieving". (Quran 14: 33-34)

"So eat of what Allah has provided you, lawfully good, and thank (Him) for the favor of Allah, in case it be Him only that you do worship". (Quran 16:114)

Besides the holy Prophet Muhammad S.A.W also remind Muslims to keep the environment clean and safe. The prophet said:

"And to remove a harmful thing from the way is also sadaqah (a charity)". (Al-Bukhari and Muslim)

"While a man was passing along a road, he saw a thorny branch. He removed it. Allah appreciated his action and forgive him". (Al-Bukhari and Muslim)

Furthermore Muslims have been warned repeatedly in the Qur'an not to spoil the earth . The Qur'an reads what means:

"And do not corrupt in the earth after being tilled, and invoke Him in fear and longing. Surely the mercy of Allah is near to the fair-doers". (Quran 7:56)

"Corruption has appeared in the land and the sea for what mankind's hands have earned, that He may make them taste some of that which they have done, that possibly they would return". (Quran 30:41)

Therefore it is concluded that, it is compulsory for Muslims to protect the environment as it repeatedly mentioned in the Qur'an and Hadis and to confirm that Muslims are complied with the Islamic laws and regulations of Shariah.

A good Muslim should always think of environment protection in all aspect of what they are doing in their lives including in business activities. It is a fact that every business entity wants to maximize their profit, but on the other hand they also have a responsibility to preserve the environment. This philosophy must be uphold by every entity including all corporate organizations in Malaysia.

Moreover God has created everything in this universe with purposes. The main reason is to conform that the Creator of this universe which is Allah. The Qur'an reads what means:

"Have you not seen that God is glorified by all in the heavens and on the earth-such as the birds with wings outspread? Each knows its worship and glorification, and God is aware of what they do." (Qur'an 24:41)

"He Who has spread out the earth for you and threaded roads for you therein and has sent down water from the sky: With it have We brought for diverse kinds of vegetation. Eat and pasture your cattle; verily, in this are signs for men and endued with understanding." (Qur'an 20: 53-54)

Therefore Muslims must really take good care of what have been granted to them as it is belonged to the Creator. The Qur'an reads what means:

"Blessed is He in Whose Hand is dominion, and He has power over everything: He Who has created death and life to try you, which of you work the most good." (Qur'an 67: 1-2)

"And He has set within it mountains standing firm, and blessed it, and ordained in it its diverse sustenance in four days, alike for all the seek." (Qur'an 41:10)

Every body in this earth have been given the right and privilege to use the resources granted by God to them, however people should take precaution actions to

ensure that the right of others are not disrupted. Islam asks their follower to share and take care of each other including this earth in which they stay together.

1.2.1 Islamic Finance in Malaysia

Malaysia is an Islamic country. As an Islamic country the government of Malaysia has introduced many rules and regulations on business activities that conform to the Islamic law of Shariah. One of them is the introduction of Islamic financial market in Malaysia in 1993. The introduction of Islamic Capital Market (ICM) is to show that government of Malaysia is keen in implementing Shariah law, and most of the corporate entities realise on the potential and the competitiveness of Islamic finance.

Furthermore, most of rich and wealthy countries other than western countries are from Middle East which are actually the Islamic countries. To attract the investors from the Muslim countries, our corporate entities must comply with the Shariah principle to show their commitment towards Islamic finance.

Islamic principles of economics and finance focus on clarity and lack of ambiguity, just and fair treatment for all and care for the rights of others. The fundamental feature of Islamic economics and finance is socio-economic and distributive justice (Ayub, 2008).

The Islamic finance sector has developed into a global phenomenon which is highly dynamic and growing rapidly. Total assets of the Islamic financial system are estimated to exceed one trillion US dollars (Malaysian ICM report, 2008)

Malaysia for some times now embarks upon developing Islamic laws and institutions that can support community-building as well as enhance the nation's drive towards progress and development. In fact, these efforts are extended to include the

development of Islamic financial institutions. Currently Islamic financial industry in Malaysia has worth approximately 113.5 billion ringgit in banking assets; 6.2 billion ringgit in takaful assets; and 125 billion ringgit in Islamic private debt securities. Moreover, Malaysia's Islamic money market channels some 30 to 40 billion ringgit every month. In terms of regulations, there is a centralized system for Syariah pronouncements, as well as the International Financial Accounting Standard Board (I.F.S.B). (BNM report, 2008)

The development of Islamic financial system in Malaysia started with the establishment of Tabung Haji in 1963. It is the first Islamic financial institution in Malaysia. Islamic Bank of Malaysia was introduced in 1983, followed by development of Islamic money market in 1993. And the Shari'ah approved securities was listed on the Kuala Lumpur Stock Exchange in June 1997.

1.2.2 Shariah Compliant Securities

Shariah is a code of law or divine injunction that regulate the conduct of human beings in their individual and collective lives (Ayub, M., 2008).

The primary source of Shariah law is the Holy Qur'an and Sunnah of the holy Prophet Muhammad S.A.W. The Holy Quran is the last revealed book from the Almighty, free from any tampering until the Hereafter (Qur'an; 15:9). The Sunnah consists of sayings of and actions done and/or approved by holy Prophet.

Besides that Ijma'a (consensus) and Qiyas (analogy) are the other sources of Shariah law.

According to Ayub,M. (2008) the primary objectives that Shariah tends to realize are the protection and preservation of religion, life, progeny, property, intellect and honour.

The primary objectives have lead to a number of secondary objectives which are:

1. The establishment of justice and equity in society.
2. The promotion of social security, mutual help and solidarity, particularly to help the poor and the needy in meeting their basic needs.
3. The maintenance of peace and security.
4. The promotion of supreme universal moral values and all actions necessary for the preservation and authority of nature.

From the study of the Qur'an and Sunnah, some basic socio-economic rights of human beings have been identified. These rights are:

1. The right to safe
2. The right to be informed
3. The right to choose
4. The right to be heard
5. The right to satisfaction of basic needs
6. The right to redress
7. The right to education
8. The right to healthy environment

Under Shariáh principle, transactions taking place in the capital market should be free from prohibited activities such as usury (riba), gambling (maisir) and ambiguity (gharar). Shariah principle require, investment must be made in ethical sector, profit cannot be generated from prohibited activities such as alcohol production, gambling,

pornography and investing in interest based financial institutions are not allowed and all wealth creation should result from a partnership between an investors and the user of capital in which rewards and risk are shared (Iqbal, 1997).



Source: <http://www.klse.com.my>

According to Malaysian Islamic Capital Market (ICM) bulletin, as of May 2008 number of Shariah-compliant securities on Bursa Malaysia is 843 stocks, which is 85% of all securities on Bursa Malaysia. This amounts to about RM684.3 billion or 64.8% of the total market capitalization of Bursa Malaysia. Furthermore, Malaysia's Shariah-based unit trust industry has increased to RM16.6 billion in net asset value. It is the largest Islamic unit trust industry in the world.

1.2.3 Islamic Accounting

Financial accounting is prepared for the use of external decision maker such as customers, suppliers, shareholders and others. It can be defined by the process of preparing, reporting, and interpreting accounting information that is provided to external decision makers (Ingram, Albright, Baldwin, & Hill, 2005).

According to Sahul Hameed, Islamic accounting can be defined as the “accounting process” which provides appropriate information (not necessarily limited to financial data) to stakeholders of an entity which will enable them to ensure that the entity is continuously operating within the bounds of the Islamic Shariah and delivering on its socioeconomic objectives. On the other hand, conventional accounting is the process of identification, recording, classification, interpreting and communication economic events to permit user to make informed decisions.

From the above definitions, it is clear that the major difference for Islamic and Conventional accounting is the type of information they measure. Conventional accounting concentrates on identifying economic events and transactions, while Islamic accounting must identify socio-economic and religious events and transactions. Furthermore, Islamic accounting must be holistic in its reporting, it includes both financial and non-financial measures regarding the economic, social, environmental and religious event.

Financial accounting is mainly concerned with providing information to assist users in making decisions. People who deal with Islamic financial institution are concerned with obeying and satisfying Allah in their financial dealings. The Qur’an reads what means:

“O ye people! Eat of what is on earth. Lawful and good; and do not follow the footsteps of the Evil One, for he is to you an avowed enemy”. (Quran 2:168)

Essentially all investors be it Muslim or non-Muslim have a desire to increase their wealth and to realize acceptable returns on their investments. This is legitimate desire which has been recognized in Shari’ah consistent with Allah’s saying:

“It is He Who has made the earth manageable for you, so traverse ye through its tracts and enjoy of sustenance which He furnishes” (Quran 67:15).

In order to achieve their objectives the investors need to analyse the annual report to get the information needed before making any investment decision. With all the information in place they'll be able to make a profitable investment decision.

1.2.4 Corporate Environmental Responsibilities Disclosure

Previously corporate social and environmental responsibility (CSER) reporting in annual report for Malaysian companies is not yet being set as mandatory. However there are some companies have already taken advanced action by reporting their CSER in their annual reports.

As at 8 May 2009 Bursa Malaysia has released the “Revamp Listing Requirement for New Board Structure”. Under paragraph 9.25 and 9.41 of the new listing requirement, company need to describe the corporate social responsibility activities or practices undertaken by the listed issuer and its subsidiaries.

With the introduction of the new listing requirement it is expected the number of companies disclosed on CSER will increase.

Companies that disclosed the CSER will be granted with a lot of advantages. Epstein & Schnietz (2002) in their study, explore corporate expenditures on social and environmental improvements as the duty of good corporate citizen. Social responsibility positively impacts communities and long run corporate profitability. The stock price of firms in industries perceived to have irresponsible environmental or labor practices were particularly hard hit. The research concludes that being socially and environmentally

responsible is not only good for society, but can also be very good for increasing and preserving shareholder value (Epstein & Schnietz, 2002).

The reward of CSER disclosure such as increasing shareholder value is very attractive as such today we found that there are many companies start to disclose their corporate social and environment responsibility in their annual report as well as their websites.

1.3 Research Problem/Problem Statement

The level of pollution in Malaysia has shown a decreasing pattern. As reported on the Malaysia Environmental Quality Report (2007), the Air Pollution Index (API) in Malaysia is improving as compared to the previous year. For example in 2007, the air quality in Klang Valley was good by 34 percent of the time, moderate 63 percent and the 3 percent of unhealthy level.

Furthermore, the river water quality was also found to be significantly improved in 2007. Out of 1,064 monitoring station, 638 (60%) were found to be clean, 376 (35%) slightly polluted and 50 (5%) polluted.

According to the report, the main sources of air pollution in the country are industries, motor vehicles and open burning.

One of the reasons for the reduction in pollution level in Malaysia is because of the awareness from the companies towards the environment. Many companies have taken actions and created awareness to the public on the importance of environment protection. Besides, they also include their corporate environmental responsibility in their annual report.

As such it is concluded that the level of pollution may be reduced if all people including the profit oriented or non profit oriented organization aware on their responsibility on environmental protections. This study will focus on the disclosure of environmental responsibility in Shariah compliant companies, in order to know whether these types of companies emphasized on environment protection in their business activities.

Malaysia is known as Islamic Financial Hub. The government of Malaysia through their related authorities such as Bank Negara Malaysia, financial institutions, Securities Commission, Bursa Malaysia and most of the public listed companies are committed towards promoting the country as an Islamic financial centre. The basic of the Islamic financial product is that it must comply with the Islamic Shariah law. Protection of environment is among the factors in the Shariah law. The protection of environment has been mentioned regularly in Quran and Hadith. The Quran read what means:

“It is He who produces gardens, both cultivated and wild, and palm trees and crops of diverse kinds and olives and pomegranates both similar and dissimilar. Eat of their fruits when they bear fruit and pay their dues on the day of their harvest, and do not profligate. He does not love profligate” (Quran 6: 142)

Therefore, if it is necessary for Shariah compliant companies to follow the Shariah law. Besides, with Islamic Financial Hub status many investors especially from Middle East country such as United Arab Emirates are interested to have their investment in Malaysia. Their choice of investment will definitely to the Shariah compliant securities. As such, complying with Shariah law as whole will attract more investors to invest in such securities.

This study will use company's annual report to analyze the extent of corporate environmental responsibility in a company. Annual reports commonly comprise quantitative information, narratives, photographs and graphs. It is commonly divided into two sections. The statutory required financial statements are usually assigned to a rear section, with a much larger up-front section containing mainly non-statutory matters. (Marino, 1995 ; Patricia and John Stanton, 2002).

Moreover most of the users of companys' annual report are aware of the content of annual report and use it to evaluate the company not only limited to the financial performance of the company, but also in some others aspect such as the corporate governance, the social and environmental responsibility, products, and human resources. All these information will serve as a guideline for the users such as investors and public to make their investment decision.

Many studies have been conducted on corporate social and environment responsibility. Study conducted by Sumiani, Y., Yusuf, H. & Lehman, G. (2007) found sector is significant in explaining level of CSER disclosure. In addition, independent Chairman is also statistically significant in explaining any type of information disclosed (Ghazali & Weetman, 2006).

However, the study on CER disclosure by the Shariah compliant companies is yet to be studied.

Based on the insight, there is a need to examine the degree of corporate environmental responsibility disclosure in Shariah compliant companies listed in Bursa Malaysia.

This study will focus on the degree of corporate environmental responsibility disclosure of Shariah compliant companies, and how ownership structure, chairmanship,

capital structure, independent non-executive directors and sectors influence the level of disclosure.

1.4 Research Objective

The objective of this research is to investigate the disclosures of corporate environmental responsibility in annual report of Shariah compliant companies. This study will focus on evaluating and examining the corporate annual report of selected Shariah compliant companies listed in the Main Board of Bursa Malaysia. There are a few variables that will be considered in evaluating the degree of disclosures. The variables are the Muslim ownership structure, the president or chairman of the board, Muslim independent non-executive directors, capital structure and sectors.

1.5 Research Questions

In order to achieve the above research objective, this study will try to answer the following research questions:

- 1 Do Shariah compliant companies disclosed their corporate environmental responsibility (CER) in their annual report?
- 2 What is the extent of CER disclosure, as measured using the grid analysis?
- 3 Will the Muslim majority in ownership structures disclosed CER in their annual report?
- 4 Will the Muslim chairman of the board or Muslim president has an influence in the disclosed of CER?
- 5 Are there any significant relationship between capital structure and the CER disclosure?
- 6 Do the degrees of disclosure differ across sectors?

1.6 Significant of the Study

The study is to investigate whether the Shariah compliant companies listed on Bursa Malaysia really implement what has been required by the guideline of Shariah compliant companies.

There are many factors that should be considered by the Shariah Committee before granting a Shariah compliant label to the companies. Some of which are the Islamic financial system places equal emphasis on the ethical, moral, social and religious dimension, to enhance equality and fairness for the good of society as a whole.

This study is important because there are rapid growth in Islamic financial institutions and products in Malaysia, and it is compulsory for these institutions to

comply with Shariah law and regulations. Furthermore, this study will look at the corporate annual report of the Shariah compliant companies and the analysis will focus on the environmental responsibilities of these companies.

Finally, the findings of this study will be as a guideline for the investors in evaluating whether the companies are complying with the Shariah laws and regulations as a whole. Besides, the results of the study may also provide information and guidelines for Malaysian Accounting Standards Board and Malaysian Securities Commission to act and improve their guidelines, rules and regulations. This can be done by making disclosure on environmental responsibility as compulsory for all Shariah compliant securities.

1.7 Definition of Key Terms

For the purpose of this study, the following definitions were referred to specifically.

1.7.1 Islamic Finance

Islamic finance is the investment that are subjected to the moral prohibition of (i) interest earning or usury (riba), and money lending, (ii) haram (sinful activity), such as direct or indirect association with lines of business involving alcohol, pork products, firearms, tobacco and adult entertainment, (iii) speculation, betting, and gambling (maisir), including the speculative trade or exchange of money for debt without an underlying asset transfer, (iv) the trading of the same object between buyer and seller (bay'al inah), as well as (v) preventable uncertainty (gharar) such as all financial derivative instrument, forwarding contracts, and future agreements (Jobst, 2007).

1.7.2 Shariah Law

Is a law that based on Quran and Sunnah. It is the legal framework within which public and private aspects of life are regulated. Shariah law deals with many aspects of day-to-day life, including politics, economic, banking, business, family, hygiene, social issues and many more.

1.7.3 Shariah Compliant Securities

According to Malaysian Islamic Capital Market (ICM) report, Shariah compliant securities is a list of companies whose activities conform to the Shariah criteria established by the Shariah Advisory Council (SAC).

1.7.4 Annual Report

Is the yearly summary of business sent by publicly listed companies to their shareholders that accompanies or includes the financial statement (Berk, Demarzo & Harford, 2009).

1.7.5 Corporate Social And Environmental Responsibility Disclosure

Corporate social responsibility (CSR) encompasses the responsibilities that business have to the societies within which these businesses operate. CSR suggests that a business identify its stakeholder groups and incorporate their needs and values within its strategic and operational decision-making process. (Hartman & DesJardins, 2008)

Corporate social and environmental disclosure is the process of communicating the social and environmental effects of organizations economic actions to particular interest groups within society and to society at large (Gray et al., 1987; Tsang, E.W.K, 1998)

1.7.6 Ownership Structure

A proportion of director's equity ownership as proxy for managerial share ownership, which includes their deemed interest (Vethanayagam, 2005).

1.7.7 Capital Structure

According to Wikipedia Encyclopedia , capital structure refers to way a corporation finances its assets through some combination of equity, debt, or hybrid securities. A firm's capital structure is then the composition or structure of its liabilities.

1.7.8 Chairmanship

Chairman is a person ultimately responsible for setting organizational strategy and policy (R.Jones, 2007).

1.7.9 Independent Non-Executive Director

An independent non-executive director is a director that does not have the administrative or management responsibilities in a company, he/she does not participate in the routine operation of the company nor participate in the management (Listing rules of the Stock Exchange of Hong Kong Ltd.)

1.8 Organization of Remaining Chapters

Chapter 1 : This chapter being the introduction. It reviews the purpose of the study and the research objectives as a guide for the whole study. The significance of the study is addressed to provide readers with the purpose of conducting the study.

Chapter 2 : This chapter reviews past literatures which are relative to the study currently undertaken.

Chapter 3 : This chapter illustrates the methodology used in the present study. It discusses the design, variables, sample, procedure, measures and data analysis.

Chapter 4 : This chapter presents the results of the statistical analysis for the data collected as well as the findings encapsulated from the analysis.

Chapter 5 : Finally, this chapter provides discussions and implications of the present study findings. The limitations of the study and recommendations for the future research are also provided.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter reviews the scholarly literature relevant to the topic of the study. It contains reviews of past and present studies about corporate social and environmental responsibilities reporting in annual report. It is to see whether public listed companies do report on environmental responsibilities in their annual report.

2.1 Corporate Social and Environmental Responsibility Disclosure

Generally corporate social responsibility is an accountability the company has towards its' stakeholders which consist of their customers, shareholders, suppliers, workers, government and many others that being affected by their business. Besides all these, the environment the company is operating is also a part of its responsibility.

Previous study found some of the information that being considered in corporate social responsibility are human resources, product service, community work and the physical environment (Teoh & Thong, 1984; Amran, A. & Devi, S.S., 2007).

In this study, the researcher is interested to investigate on the environmental aspect of CSR because it is important for the company to ensure that their business activity and operation will not harm the environment for the benefit of their stakeholders.

Furthermore, according to Quran, everything in natural world is a sign of God (Allah), therefore Muslim will continuing praising Him. Muslim must follow through the two basic guidelines which has been granted to them (Quran and Hadith) in their

daily life. The Quran and Hadith will guide the Muslim to do the right things and forbid them from doing the wrong things, its include the environment protection. The Quran reads what means:

“Above all, the universe, with all its causal processes, is the prime sign and proof of its Maker”

(Quran 76: 3-4)

In addition Abu Bakar As Siddiq, the first Caliph of Islam tell his armies not to harm women, children and infant, he also ordered them not to harm animals, destroy crops or cut down trees (Khalid, 2002).

Companies awareness toward environment responsibility has increased lately, the numbers of study in this area are also increasing.

Corporate environmental responsibility includes minimizing the ecological impact of organizational activities (reduced use of nonrenewable resources, preventing environmental degradation caused by pollution and the depletion of natural resources), voluntarily exceeding government environmental regulations, and devoting resources to environmental protection (Starik & Rands, 1995; Shrivastava, 1996; Wheeler & Sillanpaa, 1997; DesJardins, 1998; Branzei & Vertinsky, 2002; Egri, et al.,2004)

Complying with Qur'an and Hadith will not only get God (Allah) bless but also will be granted with other benefits. Study proved that it is essential for the public companies to comply with the environmental responsibilities as it may increase their firm value. Curcio, R.J. & Wolf, F.M. (1996) study found that the performance with regard to environmental responsibility is related to overall firm value. Furthermore adopting an environmental responsibility strategy appears to significantly enhance corporate financial performance of all firms except those serving industrial customers.

God created everything for humankind and appointed it the vice-regent (Khalif) on this earth. Quran reads what means:

“It is He Who appointed you Khalifs on this earth” (Quran 6:167)

This role was one of trusteeship which imposed a moral responsibility. This assumption of responsibility made humankind accountable for their actions (Khalid, 2002).

2.1.1 Islam and Environment

Islam is the religion that care and promote the important of environment protection. There are many verses in Qur'an and Hadith that explain on the environment protection.

God create the universe including human being. God create everything in this universe, it is for people to understand and to know that there is a Creator which is God who owns everything in this universe. The Qur'an read what means:

“It is He Who made the sun to be a shining glory and the moon to be a light (of beauty), and measured out stages for her; that ye might know the number of years and the count (of time). Nowise did Allah create this but in truth and righteousness. (Thus) doth He explain His Signs in detail, for those who understand.”(Qur'an 10:5).

As a khalifa in this world, people are being warned repeatedly in the holly Qur'an and Hadith to be aware and responsible in their action. It related to interaction with other human being and also extended to the animals and the environment. The Qur'an read what means:

“And render to the relatives their due rights, as (also) to those in need, and to the traveler; and do not squander your wealth in the manner of a spendthrift.” (Qur'an 7:26)

“There is the type of man whose speech about this world's life May dazzle thee, and he calls Allah to witness about what is in his heart; yet is he the most contentious of enemies. When he turns his back, His aim everywhere is to spread mischief through the earth and destroy crops and cattle. But Allah loveth not mischief.”(Qur’an 2:204-205)

The holy Prophet (PBUH) once said:

“If without good reason anyone kills a sparrow, or creature lesser than that even, the living creature will put his plaint to God on the Day of Judgement, saying: So-and-so killed me for no purpose.” (Nasai)

According to Khalid (2002), the Qur’anic view hold that everything on the earth was created for humankind. It was God’s gift (ni’mah) to us, but a gift with conditions nevertheless and it is decidedly not something that one runs and plays with.

Furthermore he added, the earth is a testing ground of human species. The test are a measure of our acts of worship (ihsan) in broadest sense. That is living in a way that is pleasing to Allah, striving in everything we do to maintain the harmony of our inner and outer environment. This is consistent with the holy Qur’an read what means:

“And know that among you is Allah Messenger, were he, in many matters, to follow your (wishes), ye would certainly fall into misfortune: But Allah has endeared the Faith to you, and has made it beautiful in your hearts, and He has made hateful to you Unbelief, wickedness, and rebellion: such indeed are those who walk in righteousness.” (Qur’an 49:7)

Therefore, Muslims should always monitor their actions in order not to involve in activities that dissent from Islamic teaching.

2.1.2 Corporate Social Responsibility (CSR) Disclosure

The term social responsibility refer to a manager's duty or obligation to make decision that nurture, protect, enhance, and promote the welfare and well being of stakeholders and society as a whole (R.Jones, 2007).

Corporate social responsibility can be defined as the obligation toward society assumed by business. The socially responsible business maximizes its positive effects on society and minimizes its negative effects (Bateman & Snell, 2002).

Corporate social disclosure (CSD) can also be defines as the provision of financial and non-financial information relating to an organization's interaction with its physical and social environment, as stated in corporate annual reports or separate social reports (Guthrie and Mathews, 1985; Hackston, D., Milne, M.J. 1996)

Corporate Social Responsibility was concerned with understanding and managing a company's social performance, which is all of those economic, environmental and social impacts on society, positive and negative, actual and potential (Douglas, Doris, & Johnson, 2004).

Corporate social responsibility reporting has been widely accepted in most of the organization and it has become essentially important in today businesses. The numbers of companies that produce corporate responsibility reports has increased from years to years.

According to Amran, A. & Devi, S.S. (2008) for public companies, disclosure of their social involvement were made in the form of passing references in the Chairman's statements.

Ayub, M. (2008) in his book stated that the Shariah attaches great importance to the role of information in the market. One must give ample opportunity to the client to